MISSOURI HOUSING
DEVELOPMENT COMMISSION

FINANCIAL STATEMENTS

JUNE 30, 2004

Strength, Dignity, Quality of Life

MISSOURI HOUSING

DEVELOPMENT COMMISSION

Contents

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Independent Auditors' Report

The Commissioners
Missouri Housing Development Commission

We have audited the accompanying balance sheet of the Missouri Housing Development Commission (a body corporate and politic of the State of Missouri) (the Commission) as of June 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission at June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Commission taken as a whole. The Management's Discussion and Analysis on pages 3 - 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The accompanying supplementary information, as listed on pages 28 - 30 in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 20, 2004 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Rubin, Brown, Gornstein & Co. LLP

St. Louis, Missouri
August 20, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Years Ended June 30, 2004 And 2003

Our discussion and analysis of Missouri Housing Development Commission's financial performance provides an overview of the Commission's financial activities for the fiscal years ended June 30, 2004 and 2003. Please read it in conjunction with the Commission's financial statements and accompanying notes.

Financial Highlights

- Total assets decreased 8.3% from June 30, 2003.
- Fiscal year 2004 mortgage investment purchases and originations totaled $321.2 million as compared to $231.4 million in 2003.
- Bonds and notes issued totaled $314.9 million in 2004 and totaled $238.8 million in 2003. $247.3 million of the bonds issued in 2004 and $208.8 million in 2003 were rated AAA by Standard & Poor's Rating Services.
- Total revenues were $188.8 million in fiscal year 2004, a decrease of 15.5% from fiscal year 2003. Excluding the net change in fair value of investments, total revenues were $217.3 million in fiscal year 2004, representing an increase of 4.4%.
- Net operating income, excluding the net change in fair value of investments, was $9.9 million in fiscal year 2004 as compared to $8.0 million in 2003.
- Net assets decreased $18.6 million (5.3%) as of June 30, 2004. Excluding the change in fair value of investments, net assets increased $9.9 million (2.8%) as of June 30, 2004.
- Standard and Poor's Rating Services upgraded the Commission's Issuer Credit Rating from AA to AA+, with a rating outlook for the intermediate to longer term of stable.

Overview of the Financial Statements

This annual financial report consists of three parts: Management's Discussion & Analysis; the financial statements, including notes to the financial statements; and supplemental schedules. The Commission is a self-supporting entity and follows enterprise fund reporting, using the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the Commission.

The following table summarizes the Commission's current, restricted, and non-current assets and liabilities and displays restricted and unrestricted net assets as of June 30, 2004 and June 30, 2003.

Condensed Financial Information

Assets, Liabilities, and Net Assets *(In Thousands)*

	June 30, 2004	June 30, 2003
Assets		
Current Assets	$ 29,483	$ 19,923
Restricted Investments	419,150	459,934
Restricted Mortgage Investments	1,035,752	1,168,134
Other Restricted Assets	64,574	54,726
Capital Assets	661	696
Other	125,859	123,843
Total Assets	$ 1,675,479	$ 1,827,256
Liabilities		
Current Liabilities	$ 1,948	$ 1,926
Current Liabilities - Payable from Restricted Assets	134,708	142,014
Long-term Bonds Payable	1,192,451	1,319,155
Other	12,518	11,751
Total Liabilities	$ 1,341,625	$ 1,474,846
Net Assets		
Invested in Capital Assets	$ 661	$ 696
Restricted	311,701	328,832
Unrestricted	21,492	22,882
Total Net Assets	$ 333,854	$ 352,410

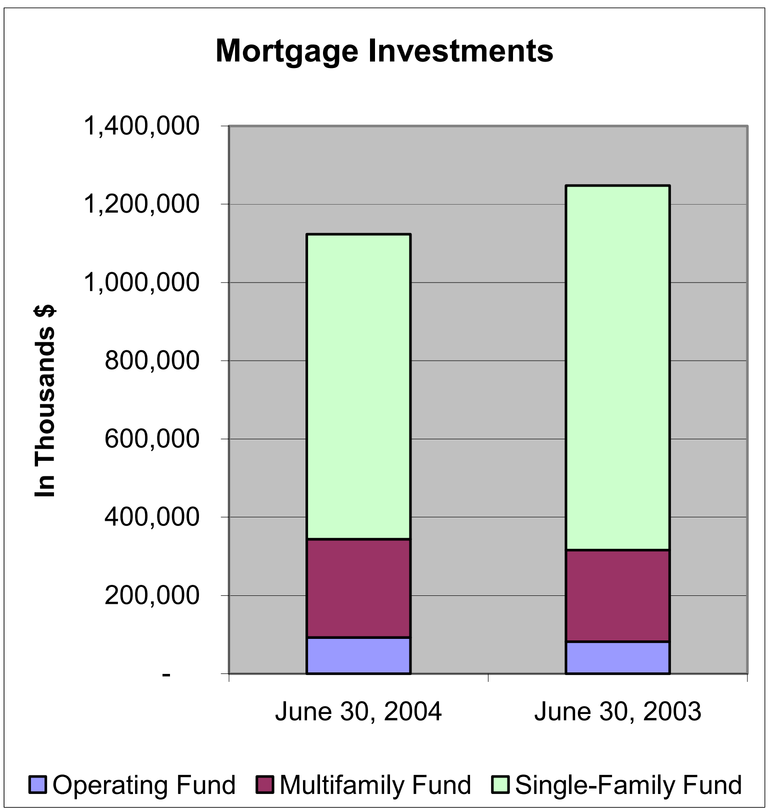
Investments

Investments consist of U.S. government and agency fixed rate securities, guaranteed investment agreement contracts, and overnight repurchase agreements. The Commission's investment policy emphasizes preservation of principal. At June 30, 2004 the Commission had $479.1 million in investments as compared to $521.7 million at June 30, 2003.

Mortgage Investments

The Commission's mortgage investments declined 9.9% during fiscal year 2004 and comprise 67.1% of the Commission's total assets at June 30, 2004 as compared to 68.3% at June 30, 2003. GNMA and Fannie Mae mortgage-backed securities (MBS) comprise 69.7% of the Commission's mortgage investments at June 30, 2004 compared to 74.2% at June 30, 2003. New loans totaled $321.2 million, with a significant level of prepayment activity resulting in an overall decline in the mortgage investment portfolio. The Commission's loan portfolio is low-risk with 99.4% of the single-family loan portfolio being GNMA and Fannie Mae MBS backed and substantially all of its bond-financed multifamily loan portfolio backed by FHA insurance. The Commission's loan loss reserve is 1.6% of total loans at June 30, 2004 (1.3% at June 30, 2003), which is allocated to uninsured loans, Risk-Share loans and related accrued interest on such loans.

The mix of mortgage investments among operating fund loans, multifamily, and single-family programs at June 30, 2004 and June 30, 2003 is depicted in the following chart.



The Commission's multifamily loan portfolio includes FHA-insured Risk-Share Mortgage Loans, in which the Commission participates in fifty percent of the insured risk. These loans totaled $113.8 million at June 30, 2004 and $62.4 million at June 30, 2003.

Debt

At June 30, 2004, the Commission had $1.2 billion in bonds and notes outstanding as compared to $1.4 billion outstanding at June 30, 2003.

New debt resulted from issuance of four series of single family mortgage revenue bonds, which totaled $247.3 million, and 13 multifamily housing revenue bonds series totaling $67.7 million. The overall net decrease in debt during the current year was due to bond redemptions that occurred as a result of significant mortgage prepayment activity. For additional information, see Note 5, Bonds and Notes Payable, in the Notes to Financial Statements.

Net Assets

The Commission continues to demonstrate a strong financial position. Net worth ratio (net assets as compared to total assets) was 19.9% at June 30, 2004 as compared to 19.3% at June 30, 2003. Excluding unrealized gains and losses, net assets were $315.7 million at June 30, 2004 and $305.9 million at June 30, 2003, representing growth of 3.2% in fiscal 2004 and growth of 2.5% in fiscal 2003. Most of the Commission's net assets are restricted for bond requirements and Commission resolutions.

Operating Activities

The following table summarizes the Commission's revenues, expenses, and changes in net assets for 2004 and 2003.

Condensed Financial Information
Revenues, Expenses, and Changes in Net Assets *(In Thousands)*

	2004	2003
Operating Revenues		
Interest and Investment Income	$ 48,498	$ 108,740
Grants & Federal Assistance	116,179	94,422
Other	24,143	20,200
Total Operating Revenues	188,820	223,362
Operating Expenses		
Interest Expense	65,373	78,962
Salaries & Administrative Expenses	9,804	9,742
Grants & Federal Assistance	116,052	94,331
Other	16,147	17,198
Total Operating Expenses	207,376	200,233
Change In Net Assets	$ (18,556)	$ 23,129

While the Commission continues to demonstrate strong financial activity, the economy and market conditions have impacted financial results. Overall revenues declined in fiscal year 2004 as a result of interest rates, significant mortgage prepayment activity and the corresponding decline in asset base related to redemption of bonds. In addition, interest and investment income decreased $43.6 million in fiscal year 2004 due to the decline in the fair value of investments. Excluding the effects of fair value reporting, the change in net assets was an increase of $9.9 million in fiscal year 2004 and $8.0 million in fiscal year 2003, demonstrating continued financial strength.

Revenues

Interest and investment income totaled $48.5 million in 2004 as compared to $108.7 million in 2003, a decrease of 55.4%. This income includes a fair value decrease of $28.5 million in 2004 and a fair value increase of $15.2 million in 2003. Rising interest rates caused a corresponding decrease in the value of the Commission's portfolio of GNMA securities and other investments. Without the fair value adjustments, interest and investment income declined 17.8%, reflecting the decrease in the Commission's asset base as compared to the prior year. Depending on future financial markets, interest rate fluctuations are expected to have continuing material effects on the Commission's financial statements.

Grants And Federal Assistance

Federal and state grant program revenues and expenses represent funds received and disbursed relating to projects funded by the U.S. Department of Housing and Urban Development Section 8 Contract Administration, HOME Investment Partnership, and other federal and state programs totaling $116.2 million in fiscal year 2004 as compared to $94.4 million in fiscal year 2003. The current year increase in Grants & Federal Assistance is largely the result of timing of disbursements for funds awarded from the HOME Investment Partnership program. These programs, along with federal and state tax credit programs, are integral to the Commission's achievement of its objectives. The Commission continues its involvement in federal government programs that serve its mission by utilizing programs that provide resources to Missouri residents that leverage its net assets and other resources to finance affordable multifamily housing and down payment assistance programs for homebuyers.

Expenses

Interest costs were $65.4 million for 2004 as compared to $79.0 million for 2003, a decrease of 17.2%. This decrease resulted from redemptions of higher rate bonds that have occurred primarily as a result of loan prepayments, lower rates on recent debt issues and the overall decrease in the level of debt outstanding.

Beyond the costs associated with debt financing, the Commission's chief operating costs consist of salaries, facilities rent, information systems, professional services, and travel costs. These costs totaled $9.8 million in 2004 ($9.7 million in 2003). Excluding the net change in the fair value of investments, these costs represented 4.5% of revenues in 2004 as compared to 4.7% in 2003.

Contacting MHDC's Financial Management

This financial report is designed to provide the Commission's stakeholders with a general overview of the Commission's finances and to show the Commission's accountability for its resources. If you have questions about this report or need additional financial information, contact Marilyn V. Lappin, Deputy Director/Chief Financial Officer, Missouri Housing Development Commission, 3435 Broadway, Kansas City, Missouri 64111 or visit our website at www.mhdc.com.

MISSOURI HOUSING DEVELOPMENT COMMISSION

BALANCE SHEET
Page 1 Of 2
(*In Thousands*)

Assets

	June 30,	
	2004	2003
Current Assets		
Cash and temporary cash investments	**$ 5,856**	$ 849
Investments	**15,780**	14,362
Mortgage investments	**6,188**	3,188
Accrued interest receivable	**1,342**	1,433
Accounts receivable - other	**207**	1
Prepaid expenses	**110**	90
Total Current Assets	**29,483**	19,923
Noncurrent Assets		
Restricted Assets:		
Cash and temporary cash investments	**25,484**	11,303
Investments	**419,150**	459,934
Mortgage investments	**1,035,752**	1,168,134
Accrued interest receivable	**7,912**	9,255
Deferred financing charges	**31,178**	34,168
Total Restricted Assets	**1,519,476**	1,682,794
Investments	**44,139**	47,398
Mortgage investments, net of current portion and allowances for loan losses ($18,626 in 2004 and $16,124 in 2003)	**81,720**	76,445
Property and equipment	**661**	474
Rental properties	**—**	222
Total Noncurrent Assets	**1,645,996**	1,807,333
Total Assets	**$ 1,675,479**	$ 1,827,256

MISSOURI HOUSING DEVELOPMENT COMMISSION

BALANCE SHEET
Page 2 Of 2
(In Thousands)

Liabilities And Net Assets

	June 30, 2004	June 30, 2003
Liabilities		
Current Liabilities		
Bonds and notes payable	**$ 525**	$ 406
Accounts payable	**813**	999
Deferred financing and commitment fees	**610**	521
Total Current Liabilities	**1,948**	1,926
Current Liabilities - Payable From Restricted Assets		
Bonds and notes payable	**46,258**	58,931
Accrued interest payable	**19,396**	22,714
Escrow deposits	**63,615**	54,856
Rent subsidies and other payables	**1,904**	1,154
Accounts payable	**2,247**	2,922
Deferred financing and commitment fees	**1,288**	1,437
Total Current Liabilities - Payable From Restricted Assets	**134,708**	142,014
Noncurrent Liabilities		
Bonds and notes payable	**1,192,451**	1,319,155
Deferred financing and commitment fees	**12,518**	11,751
Total Noncurrent Liabilities	**1,204,969**	1,330,906
Total Liabilities	**1,341,625**	1,474,846
Net Assets		
Invested in capital assets	**661**	696
Restricted by the Commission, bond resolution and State Statute	**311,701**	328,832
Unrestricted	**21,492**	22,882
Total Net Assets	**333,854**	352,410
Total Liabilities And Net Assets	**$ 1,675,479**	$ 1,827,256

MISSOURI HOUSING DEVELOPMENT COMMISSION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(In Thousands)

	For The Years Ended June 30,	
	2004	2003
Operating Revenues		
Interest and investment income:		
Income - mortgage investments	**$ 61,881**	$ 77,911
Income - investments	**15,079**	15,662
Net increase (decrease) in fair value of investments	**(28,462)**	15,167
Total interest and investment income	**48,498**	108,740
Administration fees	**6,384**	5,100
Financing fees and other	**17,759**	15,100
Federal financial assistance and grants	**116,179**	94,422
Total Operating Revenues	**188,820**	223,362
Operating Expenses		
Interest on bonds	**65,373**	78,962
Bank miscellaneous bond debt expense	**4,340**	5,482
Salaries	**5,027**	4,811
General and administrative expenses	**4,777**	4,931
Provision for loan and real estate owned losses	**3,000**	1,420
Rent and other subsidy payments	**3,428**	4,711
Housing Trust Fund grants	**5,379**	5,585
Federal financial assistance and grants	**116,052**	94,331
Total Operating Expenses	**207,376**	200,233
Change In Net Assets	**(18,556)**	23,129
Net Assets - Beginning Of Year	**352,410**	329,281
Net Assets - End Of Year	**$ 333,854**	$ 352,410

MISSOURI HOUSING DEVELOPMENT COMMISSION

STATEMENT OF CASH FLOWS

(In Thousands)

	For The Years Ended June 30, 2004	2003
Cash Flows From Operating Activities		
Interest income on mortgage loans	**$ 62,641**	$ 79,482
Fees, charges and other	**18,260**	16,208
Principal repayments on mortgage loans	**419,823**	442,639
Federal revenue	**123,313**	98,819
Federal expenses	**(116,052)**	(94,331)
Purchases of mortgage loans	**(321,220)**	(231,397)
Operating expenses	**(10,108)**	(11,809)
Net Cash Provided By Operating Activities	**176,657**	299,611
Cash Flows From Noncapital Financing Activities		
Retirement of principal on bonds	**(603,476)**	(596,482)
Proceeds from issuance of bonds	**474,264**	468,750
Deferred financing costs paid	**(10,856)**	(8,425)
Change in escrow deposits	**8,760**	6,342
Interest paid on bonds	**(78,738)**	(88,730)
Net Cash Used In Noncapital Financing Activities	**(210,046)**	(218,545)
Cash Flows Used In Capital And Related Financing Activities		
Payments for property and equipment	**(340)**	(381)
Cash Flows From Investing Activities		
Proceeds from sale of investments	**1,255,581**	1,059,850
Purchase of investments	**(1,216,853)**	(1,193,231)
Income received on investments	**15,753**	15,127
Increase (decrease) in securities purchased under agreements to resell	**(1,564)**	27,450
Net Cash Provided By (Used In) Investing Activities	**52,917**	(90,804)
Increase (Decrease) In Cash And Cash Equivalents	**19,188**	(10,119)
Cash And Cash Equivalents - Beginning Of Year	**12,152**	22,271
Cash And Cash Equivalents - End Of Year	**$ 31,340**	$ 12,152
Reconciliation Of Net Income (Loss) To Net Cash Provided By Operating Activities:		
Net income (loss)	**$ (18,556)**	$ 23,129
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	**153**	136
Net (increase) decrease in fair value of investments	**28,462**	(15,167)
Income - mortgage investments	**(61,881)**	(77,911)
Income - investments	**(15,079)**	(15,662)
Amortization of financing charges, financial fees and debt premium/discount	**13,827**	14,427
Provision for loan and real estate owned losses, net of charges-off loans	**2,724**	1,648
Interest expense related to bonds	**65,373**	78,962
Repayment of principal on mortgage loans receivable	**419,823**	442,639
Mortgage and construction loans disbursed	**(321,220)**	(231,397)
Interest received on mortgage investments	**62,641**	79,482
Change in assets and liabilities:		
(Increase) decrease accounts receivable - other	**(206)**	1,030
Increase (decrease) rent subsidies and other payables	**750**	(705)
Decrease in accounts payable	**(861)**	(1,078)
Increase in deferred financing and commitment fees	**707**	78
Net Cash Provided By Operating Activities	**$ 176,657**	$ 299,611

1. Authorizing Legislation

The Missouri Housing Development Commission (the Commission) is a body corporate and politic established on October 13, 1969 by Chapter 215 of the Missouri State Statutes. In accordance with the provisions of Chapter 215 and resolutions of the Commission, the Commission is authorized to make or purchase mortgage loans which are uninsured, partially insured, or insured or guaranteed by the federal government and to insure mortgage loans, the funds of which are to be used to develop new or rehabilitated low- and moderate-income housing. The Commission is also authorized to issue bonds for making or purchasing such loans. The outstanding balance of bonds applicable to loans not insured or guaranteed by a federal agency or to bonds rated lower than “AA” by rating agencies at the time of issuance shall not exceed $200,000,000. At June 30, 2004 and 2003, the Commission had $1,610,000 and $1,620,000, respectively, of bonds outstanding applicable to loans that are not so insured or guaranteed or to bonds that are not so rated. Bonds issued by the Commission are not an obligation of the State of Missouri.

2. Summary Of Significant Accounting Policies

Reporting Entity

Governmental Accounting Standards establish the criteria used in determining which organizations should be included in the Commission’s financial statements. Generally accepted accounting principles require the inclusion of the transactions of government organizations for which the Commission is financially accountable.

The extent of financial accountability is based upon several criteria including: appointment of a voting majority of the governing body, imposition of will, financial benefit to or burden on a primary government and financial accountability as a result of fiscal dependency.

The Missouri Housing Trust Fund has been designated as a blended component unit of the Commission. The Missouri Housing Trust Fund is authorized by section 215.035, RSMo. Separate financial statements for the Missouri Housing Trust Fund may be obtained through the Commission.

Pursuant to the requirements of the Governmental Accounting Standards Board (GASB), the Commission is considered a related organization of the State of Missouri for financial reporting purposes. Accordingly, the Commission is included as a footnote disclosure in the State of Missouri’s comprehensive annual financial report.

Measurement Focus And Basis Of Accounting

For financial reporting purposes, the Commission reports its operations as a single enterprise fund. Accordingly, the accounting records are maintained on the accrual basis of accounting and all interfund transactions are eliminated. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the related liability is incurred. The Commission's measurement focus is on the flow of economic resources, since income determination and capital maintenance are critical.

Revenues and expenses are typically divided into operating and non-operating items. Operating revenues generally result from providing services in connection with the Commission's principal ongoing operations. The principal operating revenues of the Commission are derived from the investment income from loans and investments, financing fees and other charges related to providing financing for affordable housing through mortgage loans. Operating expenses consist primarily of interest expense on bonds outstanding. All revenues and expenses not meeting these definitions would be reported as non-operating revenues and expenses.

The Commission follows all Governmental Accounting Standards Board (GASB) pronouncements as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principal Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Commission has elected not to apply the pronouncements of the Financial Accounting Standards Board issued after November 30, 1989 as prescribed by GASB Statement No. 20.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Fees, Charges And Expenses

Financing fees are deferred and recorded as income over the life of the related bond issuance, which approximates the life of the related mortgage loans.

Service and other fees and charges are recorded as income when earned and the associated administrative expenses are recorded as incurred. Operating expenses identifiable to a particular program are charged directly to the program. All other operating expenses are accounted for by the Commission in the Operating Fund.

Cash And Investment Policies

Chapter 215 of the Missouri statutes provides for the Commission to invest any funds not required for immediate disbursement in obligations of the State of Missouri or the United States government or any instrumentality thereof, the principal and interest of which are guaranteed by the State of Missouri or the United States government or instrumentality thereof; bank certificates of deposit; or such other investments as determined by the Commission. The general policy of the Commission is to make investments for future funding requirements and not for trading purposes.

As required by GASB Statement No. 31, *Accounting for and Financial Reporting for Certain Investments and External Investment Pools*, securities purchased under agreements to resell, U.S. government and agency securities, and mortgage-backed securities are reported at fair value as determined by the investment custodians utilizing prices quoted by securities dealers or brokers, investment bankers or statistical services on the valuation date. For the year ended June 30, 2004, the net decrease in fair value of investments was $28,462,000. For the year ended June 30, 2003, the net increase in fair value of investments was $15,167,000. Without the recognition of this element of investment income, the Commission's change in net assets would have been $9,906,000 in 2004 and $7,962,000 in 2003.

Mortgage Investments

Proceeds from the sale of bonds are used to make or purchase mortgage loans and to purchase Government National Mortgage Association (GNMA) and FannieMae loan mortgage-based securities. Advances made on such loans during the construction period of related housing units are recorded as construction loans and are transferred to mortgage loans upon final endorsement after construction completion. Mortgage and construction loans are reported at cost, while GNMA and FannieMae mortgage-backed securities are reported at fair value. Mortgage-backed securities do not have a contractual maturity date, and the Commission may be subject to the risk of prepayment on these securities.

Allowance For Loan Losses

The allowance for loan losses is for uninsured loans, Risk-Share loans and related accrued interest on such loans. The allowance is management's estimate of uncollectible loans and related accrued interest and is based on existing payment conditions, prior experience and such other factors which, in management's opinion, require consideration. For financial statement presentation, the allowance for loan losses has been netted against the noncurrent portion of mortgage and construction loans.

Deferred Financing Charges

Costs of issuance of bonds are deferred and amortized over the life of the related issue using the outstanding bond method, which approximates the effective interest method.

Rental Property And Equipment

Equipment consists of leasehold improvements, office furniture and equipment which is stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets which range from three to nine years. The Commission defines capital assets as assets with an initial, individual cost of more than $750 and an estimated useful life in excess of one year.

In prior years rental properties were acquired and rehabilitated to rent to persons or families with low income. Rental activity was minimal, therefore, no depreciation has been taken to date. The properties were recorded at appraised value when acquired. By year-end 2004 the Commission had disposed of all rental properties.

Net Assets

Net assets are classified as follows:

Invested in Capital Assets: This component of net assets consists of capital assets, net of accumulated depreciation.

Restricted: This component of net assets consists of restrictions placed on net asset use through external constraints imposed by creditors, grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted: This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets.

Federal Assistance And Grants

The Commission administers grants and federal assistance programs, representing "pass-through" financial assistance, on the behalf of secondary recipients. In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the Commission recognizes financial activity related to pass-through grants and financial assistance as revenues and expenses of the Commission.

Grants received from federal, state and local governments are recognized as operating revenue as the related expenditures are incurred in accordance with GASB No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions.*

Debt Refunding

For current refundings and advance refundings resulting in defeasance of debt reported by proprietary activities, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old or new debt, whichever is shorter, using the bonds outstanding method. The deferred refunding amounts are classified as a component of bonds payable in the financial statements.

Use Of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

3. Description Of Funds Or Programs

The following describes the funds or programs maintained by the Commission, all of which conform to Chapter 215 of the Missouri State Statutes and the respective bond resolutions.

Operating Fund

Funding of the Operating Fund on an ongoing basis is derived principally from allowable transfers from other funds, fees earned for administering various U. S. Department of Housing and Urban Development (HUD) programs, and interest income from Operating Fund investments and mortgage loans. Mortgage and construction loans in the Operating Fund are collateralized by deeds of trust on the related properties except for approximately $2,362,000 and $2,675,000 at June 30, 2004 and 2003, respectively, which are insured by HUD or guaranteed by the Veterans Administration (VA). Authorized activities of the Operating Fund include the following:

> Payment of general and administrative expenses and other costs not payable by other funds of the Commission;
>
> Financing multifamily or single-family residential housing units from accumulated fund balances, if financing of such units is not provided for under existing bond indentures; and,
>
> Those activities deemed necessary to fulfill the Commission's corporate purposes for which special funds are not established.

Multifamily Mortgage Program Fund

The Commission's Multifamily Mortgage Program Fund was established to account for the proceeds from the bond sales, debt service requirements, and the related mortgage loans and mortgage-backed securities on eligible multifamily developments. All loans, with the exception of $38,115,000 that is being financed with the proceeds from the issuance of the Rental Housing Revenue Bonds payable (JB Hughes, Primm Place, Truman Farm Villas, Brookstone, O'Fallon Place Apartments, Mansion II Apartments and East Hills Village Apartments), are insured by HUD. These loans, which totaled $34,522,000 and $35,089,000 at June 30, 2004 and 2003, respectively, are financed by the borrowers with limited obligation bonds which are denoted by "**" in Note 5.

The Commission has entered into a Risk Sharing Agreement with the U.S. Department of Housing and Urban Development (HUD), which permits the Commission to participate in HUD's Risk-Share Program. In accordance with the terms of this agreement, HUD will insure certain mortgage loans on multifamily housing developments (FHA-insured "Risk-Share Mortgage Loans") and the Commission will underwrite the Risk-Share Mortgage Loans following its underwriting guidelines. HUD will insure the Risk-Share Mortgage Loans and will bear 50% of the risk and the Commission will bear the remaining 50% of the risk. The Commission had Risk-Share Mortgage Loans totaling $113,816,000, representing 22 loans, as of June 30, 2004 and $62,430,000, representing 16 loans, as of June 30, 2003.

Single-Family Mortgage Program Fund

The Commission's Single-Family Mortgage Program Fund was established to account for the proceeds from the sale of bonds, debt service requirements and the related mortgage loans and mortgage-backed securities on eligible single-family housing units. All loans are either insured by the Federal Housing Administration or qualified private mortgage insurers or guaranteed by the VA.

4. Cash And Investments

Cash And Temporary Cash Investments

At June 30, 2004 and 2003, the total carrying amount of the Commission's deposits was $4,685,000 and $6,064,000, respectively, and the bank balances were $6,127,000 and $7,691,000, respectively. The entire bank balances at June 30, 2004 and 2003 were either insured by the Federal Deposit Insurance Corporation or were collateralized by unregistered pledged securities held by the Commission's agent in the Commission's name. Temporary investments of $26,655,000 and $6,088,000 represent amounts invested in money market mutual funds as of June 30, 2004 and 2003, respectively, and are not subject to classification of custodial risk. Cash and temporary cash investments are classified as cash and cash equivalents for purposes of the statement of cash flows.

Investment Agreements

For bond issues originating after March 15, 1983, the Commission has authorized and directed the investment of funds with certain financial institutions. The total amount of funds invested in these agreements at June 30, 2004 and 2003 was $273,982,000 and $320,169,000, with guaranteed fixed rates of return ranging from 1.05% to 8.10% and 1.23% to 8.10%, respectively. At June 30, 2004 and 2003, investment agreements of $64,695,000 and $64,014,000, respectively, were collateralized by the banks with U.S. government or U.S. government agency obligations. Pursuant to the investment agreements between the Commission and the banks, investment agreements of $209,287,000 and $256,155,000 were uncollateralized at June 30, 2004 and 2003, respectively. The investment agreements have redemption terms that do not consider market rates, and income is based on contractual interest rates; accordingly, these agreements are reported at cost.

Securities Purchased Under Agreements To Resell

Investments in securities purchased under agreements to resell are carried at fair value. At June 30, 2004 and 2003, these agreements had an average interest rate of approximately .75% and 1%, respectively, and were collateralized by the banks with U.S. government or U.S. government agency obligations.

U.S. Government And Agency Securities

Investments in U.S. government and agency securities are carried at fair value. At June 30, 2004 and 2003, securities approximating $3,095,000 and $6,343,000, respectively, are uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Commission's name. At June 30, 2004 and 2003, securities approximating $184,558,000 and $179,312,000, respectively, are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Commission's name.

Investments reported at fair value consist of (in Thousands):

	2004		2003	
	Cost	**Fair Value**	Cost	Fair Value
Securities purchased under agreements to resell	**$ 17,434**	**$ 17,434**	$ 15,870	$ 15,870
U.S. government and agency securities	**189,324**	**187,653**	181,997	185,655
GNMA and FannieMae mortgage-backed securities	**763,135**	**782,957**	882,415	925,239
	$ 969,893	**$ 988,044**	$ 1,080,282	$ 1,126,764

During 2004 and 2003, the Commission realized a net loss of $131,000 and $419,000, respectively, from the sale of investments. The calculation of realized gains and losses is independent of the calculation of net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in fair value of investments reported in a prior year. The net decrease in fair value was $28,462,000 in 2004 and the net increase in fair value was $15,167,000 in 2003. This amount takes into account all changes in fair value (including purchases and sales) that occurred during each respective year. The unrealized gain on investments held at June 30, 2004 and 2003 was $18,151,000 and $46,482,000, respectively.

5. Bonds And Notes Payable

The net proceeds of bond issues are used to provide financing for multifamily housing projects or for single-family residential housing units. The bond proceeds are deposited with and invested by various bank trust departments in qualified investments until required for such financing. Those bonds are obligations of the Commission and are not liabilities of the State of Missouri. A summary of bonds payable outstanding at June 30, 2004 and 2003 follows *(in thousands)*:

	Original Amount Authorized	Outstanding June 30, 2004	2003
Multifamily Mortgage Program			
March 15, 1977 Series (6%), due 2020	$ 30,000	**$ 6,490**	$ 7,385
1979 Series A (6.75% to 7%), due 2004 - 2021	32,400	**1,405**	2,650
1979 Series B (6.75% to 7%), due 2004 - 2022	43,500	**5,520**	5,705
September 1, 1980 Series (9.625% to 10%), due 2006 - 2023	15,500	**2,205**	4,010
May 15, 1982 Series (9%), due 2012 - 2023	7,000	**3,105**	3,175
June 1, 1988 Series (8.1% to 8.5%), due 2008 - 2029	3,905	**1,800**	1,825
June 1, 1989 Series A (7.125% to 7.375%), due 2009 - 2030*	965	**865**	880
September 1, 1989 Series (9.25%), due 2030	1,845	**1,590**	1,610
March 1, 1991 Series (10%), due 2031	1,685	**1,610**	1,620
June 15, 1992 Series (6.2% to 6.6%), due 2004 - 2023	10,240	**2,200**	2,255
November 15, 1992 Series (6.1% to 6.6%), due 2004 - 2024	43,340	**8,805**	21,645
1995 Series A (5.15% to 6.25%), due 2004 - 2017**	2,825	**2,260**	2,365
November 15, 1996 Series (7.1% to 8.05%), due 2006 - 2038	3,540	**3,350**	3,385
1996 Series A (5.75% to 6.2%), due 2011 -2028**	7,700	**6,270**	6,400
1996 Series A (5.25% to 6.2%), due 2006 - 2028**	8,400	**7,560**	7,695
Series 1998 (4.6% to 5.45%), due 2004 - 2028	9,045	**8,125**	8,295
Series 1999 (3.9% to 5.25%), due 2004 - 2032**	6,710	**6,220**	6,305
Series 1999 (6.125% to 6.17%), due 2022 - 2032**	6,730	**6,535**	6,605
Series 1999 (7.3%), due 2030**	2,750	**2,710**	2,730
2000 Series 1 (5.2% to 6.1%), due 2004 - 2031	11,540	**10,580**	10,730
2001 Series I (3.85% to 5.25%), due 2004 - 2027	21,780	**11,605**	12,355
2001 Series II (3.85% to 5.5%), due 2004 - 2023	46,360	**34,370**	40,630
2001 Series III (3.65% to 5.25%), due 2004 - 2021	22,850	**15,775**	21,695
2001 Series 1A (3.4% to 5.375%), due 2004 - 2033	7,300	**5,270**	5,365
2001 Series 2A (5.25% to 5.3%), due 2021 - 2032	3,800	**3,685**	3,745
Series 2002 G (6.2% to 6.3%), due 2019 - 2037*,**	2,550	**2,517**	2,539
Series 2002 H (6.9%), due 2038**	450	**450**	450
2002 Series 1 (5.3% to 5.55%), due 2017 - 2038	12,890	**12,890**	12,890
2002 Series 2 (5.2% to 5.3%), due 2022 - 2034	4,440	**3,785**	4,440
2002 Series 4 (2.7% to 5.2%), due 2004 - 2034	20,505	**20,505**	20,505
2003 Series 1 (5.2% to 5.3%), due 2023 - 2034	5,105	**2,705**	5,105
2003 Series 2 (1.6% to 5.25%), due 2005 - 2035	5,715	**5,715**	—
2003 Series 3 (2% to 5.625%), due 2005 - 2040	3,965	**3,965**	—
2003 Series 4 (1.5% to 5.45%), due 2004 - 2035	3,925	**3,925**	—
2003 Series 5 (1.65% to 5.28%), due 2005 - 2040	5,075	**5,075**	—
2003 Series 6 (1.3% to 5%), due 2005 - 2035	5,280	**5,280**	—
2003 Series 7 (4.3% to 5.1%), due 2013 - 2035	4,695	**4,695**	—
2003 Series 8 (1.625% to 5.2%), due 2005 - 2035	4,385	**4,385**	—
2003 Series 9 (1.5% to 5.1%), due 2004 - 2034	8,590	**8,590**	—
2003 Series 10 (2% to 5.1%), due 2006 - 2036	10,880	**10,880**	—
2004 Series 1 (4.05% to 4.95%), due 2018 - 2036	3,160	**3,160**	—
2004 Series 2 (1.5% to 4.95%), due 2005 - 2035	4,190	**4,190**	—
2004 Series 3 (1.61% to 5.33%), due 2005 - 2035	1,800	**1,800**	—
2004 Series 4 (1.61% to 5.25%), due 2005 - 2036	5,990	**5,990**	—
	465,300	**270,412**	236,989
Less: Unamortized debt discount	—	**(146)**	(157)
Add: Unamortized debt premium	—	**23**	28
Less: Deferred amount on refunding	—	**(757)**	(838)
	$ 465,300	**$ 269,532**	$ 236,022

	Original Amount Authorized	Outstanding June 30, 2004	Outstanding June 30, 2003
Single-Family Mortgage Program			
June 15, 1976 Series (6.375%), due 2007	$ 28,175	**$ 1,515**	$ 1,730
September 1, 1986 Series (7.25% to 7.5%), redeemed 2004	9,925	**—**	295
November 1, 1986 Series (7.3% to 7.6%), redeemed 2004*	100,000	**—**	1,995
1988 Series A (7.875% to 8.3%), due 2004 - 2019*	76,200	**4,090**	6,435
1988 Series C (7.8% to 8.25%), redeemed 2004*	37,500	**—**	545
September 1, 1991 Series B (7% to 7.25%), due 2010 - 2012	18,200	**13,160**	14,447
1991 Series C (7.35%), redeemed 2004*	53,485	**—**	1,557
1992 Series A (6.2% to 6.75%), redeemed 2004*	75,000	**—**	10,165
1994 Series A (6.4% to 7.3%), due 2004 - 2025*	100,000	**4,690**	8,495
1995 Series A (5.3% to 6.22%), due 2004 - 2026*	55,000	**12,375**	22,895
1995 Series B (5.3% to 6.45%), due 2004 - 2027*	30,000	**6,120**	11,085
1995 Series C (5.0% to 7.25%), due 2004 - 2026*	30,000	**2,775**	6,205
1995 Series D (5.1% to 6.15%), due 2004 - 2026*	16,800	**2,380**	5,430
1996 Series A (5.1% to 7.2%), due 2004 - 2027*	41,000	**4,990**	9,620
1996 Series B (5.3% to 7.55%), due 2004 - 2027*	29,060	**1,775**	4,840
1996 Series C (5.1% to 7.45%), due 2004 - 2027*	32,925	**4,550**	8,540
1996 Series D (5% to 7.1%), due 2004 - 2028*	46,640	**8,295**	15,480
1997 Series A (5.2% to 7.3%), due 2004 - 2028*	50,000	**6,345**	14,155
1997 Series A-4 (4.7% to 5.65%), due 2004 - 2029*	10,000	**1,360**	3,135
1997 Series B (4.8% to 6.85%), due 2004 - 2029*	64,500	**16,920**	30,525
1997 Series C (4.7% to 6.85%), due 2004 - 2029*	55,625	**11,045**	21,400
1998 Series B (4.55% to 6.4%), due 2004 - 2029*	70,000	**18,585**	35,340
1998 Series D (4.375% to 6.5%), due 2004 - 2029*	70,000	**20,100**	37,810
1998 Series E (4.15% to 6.45%), due 2004 - 2029*	50,000	**15,838**	27,999
1999 Series I (5.1%), due 2030	5,095	**2,305**	3,675
1999 Series A (4.05% to 6.3%), due 2004 - 2030*	75,000	**27,300**	46,850
1999 Series B (4.55% to 6.83%), due 2004 - 2030*	75,000	**22,635**	43,410
1999 Series C (4.65% to 7.07%), due 2004 - 2030*	75,000	**17,740**	39,140
2000 Series A (5.1% to 7.77%), due 2004 - 2031*	98,135	**19,605**	43,590
2000 Series B (5.25% to 8%), due 2004 - 2031*	70,000	**18,950**	36,815
2000 Series C (4.8% to 7.4%), due 2004 - 2032*	84,390	**26,610**	52,215
2001 Series A (3.95% to 6.35%), due 2004 - 2033*	100,000	**46,260**	80,045
2001 Series B (3.75% to 6.85%), due 2004 - 2033*	70,000	**35,375**	59,880
2001 Series C (3% to 6.23%), due 2004 - 2033*	46,490	**31,875**	40,730
2002 Series A (2.8% to 6.75%), due 2004 - 2034*	45,000	**30,305**	43,495
2002 Series B (2.75% to 6.66%), due 2004 - 2034*	80,000	**59,425**	79,335
Draw Down 2002 Series A (1.74%), due 2004	100,000	**—**	11,820
2002 Series C (1.8% to 6%), due 2004 - 2034*	80,000	**62,765**	76,495
2003 Series A (1.4% to 5.78%), due 2004 - 2035*	50,000	**48,550**	50,000
2003 Series B (1.3% to 5.375%), due 2004 - 2034*	78,795	**75,015**	78,795
Draw Down 2003 Series A (1.358%), due 2004	125,000	**—**	26,220
2003 Series C (1.25% to 5.35%), due 2004 - 2034*	60,000	**60,000**	—
2003 Series D (1.5% to 5.55%), due 2005 - 2034*	70,000	**70,000**	—
2004 Series A (1.25% to 5.15%), due 2005 - 2035*	57,280	**57,280**	—
Draw Down Series 2004 A (1.096%), due 2005	150,000	**12,030**	—
2004 Series B (1.9% to 6.35%), due 2005 - 2035*	60,000	**60,000**	—
	2,805,220	**940,933**	1,112,633
Less: Unamortized debt discount	—	**(32)**	(70)
Add: Unamortized debt premium	—	**26,144**	26,961
Less: Deferred amount on refunding	—	**(958)**	(937)
	2,805,220	**966,087**	1,138,587
Total	$ 3,270,520	**$ 1,235,619**	$ 1,374,609

The proceeds of bond issues denoted by "*" are used to purchase GNMA and Fannie Mae mortgage-backed securities, which are backed by mortgage loans originated through the Commission's loan programs.

The proceeds of bond issues denoted by "**" are used to provide financing for multifamily housing projects. These bonds are limited obligations of the Commission, payable solely from and secured by a loan agreement between the Commission and the borrower.

During the years ended June 30, 2004 and 2003, the Commission repurchased or redeemed, prior to their scheduled maturity, the principal amount of certain of its bonds. Net gains of $6,210,000 and $4,747,000 for the years ended June 30, 2004 and 2003, respectively, on early extinguishment of debt have been recorded and included with financing fees and other operating revenue. These gains arise as a result of immediate recognition of deferred bond issuance costs, bond discounts or premiums that would have been amortized over the life of the applicable bond issue if not retired, and call premiums as required by the resolution.

During the fiscal year ended June 30, 2003, the Commission issued Single Family Mortgage Revenue Bonds 2002C and 2003B in the aggregate amount of $158,795,000. Of this aggregate amount, $36,620,000 refunded a portion of the outstanding Housing Development Bonds (Insured Mortgage Loans). The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $967,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2024 using the bonds outstanding method. The Commission completed the advance refunding to reduce its total debt service payments over the next 30 years by approximately $515,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately $3,410,000.

During the fiscal year ended June 30, 2004, the Commission issued Single Family Mortgage Revenue Bonds 2004A in the aggregate amount of $57,280,000. Of this aggregate amount, $7,280,000 refunded a portion of the outstanding Housing Development Bonds (Insured Mortgage Loans). The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $66,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2023 using the bonds outstanding method. The Commission completed the advance refunding to reduce its total debt service payments over the next 30 years by approximately $40,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately $413,000.

All bonds have early redemption provisions. A summary of future annual scheduled principal and interest maturities, which excludes unamortized debt discount and premium, follows *(in thousands)*:

Bonds Maturing During Years Ending June 30,	**Principal**	**Interest**	**Total**
2005	$ 40,964	$ 61,969	$ 102,933
2006	15,265	62,714	77,979
2007	14,442	62,192	76,634
2008	16,139	61,663	77,802
2009	15,170	60,965	76,135
2010 - 2014	89,763	298,489	388,252
2015 - 2019	99,024	272,764	371,788
2020 - 2024	126,891	244,767	371,658
2025 - 2029	189,779	203,233	393,012
2030 - 2034	351,887	130,500	482,387
2035 - 2039	249,361	11,062	260,423
2040 - 2044	2,660	145	2,805
	$ 1,211,345	$ 1,470,463	$ 2,681,808

In addition to bonds payable, the Commission had available two lines of credit totaling $5,050,000 and $1,108,000. At June 30, 2003, these lines of credit had outstanding balances of $3,113,000 and $770,000 at interest rates of 7.27% and 7.02%, respectively, and were due September 2010 and January 2012, respectively.

During fiscal year 2004, these lines of credits were refinanced with seven fixed rate notes totaling $3,615,000 at interest rates of 1.27% to 3.64%. The fixed rate notes pay monthly interest with a final principal balloon payment due at maturity as follows *(in thousands)*:

Maturity Date	**Interest Rate**	**Principal**	**Interest**	**Total**
2005	1.27%	$ 525	$ 93	$ 618
2006	1.76%	525	85	610
2007	2.28%	525	74	599
2008	2.72%	525	61	586
2009	3.1%	515	47	562
2010 - 2011	3.4% - 3.64%	1,000	42	1,042
		$ 3,615	$ 402	$ 4,017

6. Escrow Deposits And Rent Subsidies Payable

Escrow deposits represent funds paid by project developers for real estate taxes, insurance, future replacement of property and other costs.

Rent subsidies payable represent funds received from the State of Missouri and HUD for payment of rent subsidies to participants in the Housing Assistance Programs.

Such funds held by the Commission are included in restricted cash and temporary cash investments.

7. Pension Plan

All Commission employees participate in the Missouri State Employees' Plan (MSEP), a single-employer public employee retirement plan administered by the Missouri State Employees Retirement System (the System). MSEP provides retirement, death and disability benefits to its members. As established by Missouri State Statutes, responsibility for the operation and administration of MSEP is vested in the Missouri State Employees Retirement System Board of Trustees. The System issues a publicly available financial report that includes financial statements and required supplementary information for MSEP. That report may be obtained by writing to the Missouri State Employees Retirement System, 906 Leslie Boulevard, P. O. Box 209, Jefferson City, Missouri 65101, or by calling 1-800-827-1063.

Covered employees do not contribute toward the plan. The employer is required to contribute at an actuarially determined rate. The contribution requirement for the years ended June 30, 2004, 2003 and 2002 was $461,000, $427,000 and $498,300, respectively; these contributions represented 9.18%, 8.87% and 11.96% of total payroll during 2004, 2003 and 2002, respectively. These contributions are expensed by the Commission when incurred.

As determined in accordance with GASB Statement No. 27, *"Accounting for Pensions by State and Local Governmental Employers,"* the Commission has no pension liability, as required contributions are paid when due. This treatment is consistent with prior years.

8. Restrictions

Substantially all of the assets of each bond program of the Commission are pledged as collateral for the payment of principal and interest on bond indebtedness of that program. Therefore, all related bond program assets of the Commission that are pledged as collateral are treated as restricted and noncurrent. The obligations of the Commission are not obligations of the State, and the State is not liable for such obligations.

Resolutions of the Commission require that, to the extent funds are available in the general account of each bond fund, they are to be transferred to a debt service account on a periodic basis, from the date of bond issuance to the date of each succeeding maturity, sufficient to make principal and interest payments on the bonds as they become due. Funds within the general account of each bond fund are on deposit in restricted accounts.

In addition, the statute and resolutions of the Commission require that for certain bond issues an amount be maintained in reserve accounts to be used to make principal and interest payments on payment due dates. Such amounts are on deposit in restricted accounts for the various issues within the Multifamily and Single-Family Mortgage Programs.

In addition, $63,615,000 and $54,856,000 at June 30, 2004 and 2003, respectively, are held as escrow deposits, and $115,839,000 and $131,478,000, respectively, are restricted for making or purchasing mortgage and construction loans.

Pursuant to certain of its resolutions, the Commission has restricted the net assets of the Multifamily Mortgage Program and the Single-Family Mortgage Program to maintain a level of reserves necessary to provide sound fiscal operations. In addition, through various resolutions for the Multifamily Mortgage Program, the Single-Family Mortgage Program and activities of the Operating Fund, the Commission has reserved internally generated funds for financing residential housing units and for providing rental housing assistance, which are included in restricted net assets. In fiscal year 1997, the Commission acquired a portfolio of loans from HUD. Revenues collected from these HUD purchased loans are restricted by an agreement between the Commission and HUD to be used primarily for rehabilitation loans or grants.

Pursuant to State Statute, the Commission has restricted the amount of net assets representing revenues over expenses related to the financial activity of the Missouri Housing Trust Fund. The Missouri Housing Trust Fund is authorized by section 215.035, RSMo. Revenues of the Missouri Housing Trust Fund are restricted to programs that financially assist, by loans or grants, the development of housing stock and that provide housing assistance to persons and families with incomes at or below specified levels.

Below is a summary of restricted net assets by the Commission, bond resolution and State Statute as of June 30, 2004 and 2003 *(in thousands)*:

	2004	2003
Restricted By Commission:		
Tenant assistance	**$ 46,770**	$ 47,540
Loans not funded by a bond sale	**109,550**	98,541
Loan commitments not yet disbursed	**14,988**	15,191
Reserves committed to Home Improvement and Multifamily interest subsidy program	**5,799**	5,799
Restricted earnings of HUD purchased loans	**9,765**	8,989
Restricted for Rural Initiative Program	**1,225**	1,106
	188,097	177,166
Restricted by bond resolution	**117,556**	146,192
Restricted by State Statute - Missouri Housing Trust Fund	**6,048**	5,474
	$ 311,701	$ 328,832

9. Commitments And Contingencies

The Commission rents office space in Kansas City, Missouri in accordance with a 10-year lease, which is accounted for as an operating lease and can be extended at the option of the Commission for two successive five-year periods.

The Commission rents office space in St. Louis, Missouri in accordance with a 10-year lease, which is accounted for as an operating lease.

Lease expenditures for the years ended June 30, 2004 and 2003 were $621,000 and $566,000, respectively. Future minimum lease payments for these leases are as follows *(in thousands)*:

Year	Amount
2005	$ 609
2006	630
2007	680
2008	681
2009	686
2010 - 2012	1,735
	$ 5,021

The Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omission; and natural disasters for which the Commission carries commercial insurance.

The Commission is also subject to additional audits, as deemed necessary by its federal grantor agencies, of the Commission's grant programs which may result in disallowed costs to the Commission. However, the Commission's management does not believe such audits would result in any disallowed costs that would be material to the Commission's financial position at June 30, 2004.

10. Subsequent Events

Prior to June 30, 2004, the Commission approved the issuance of one bond issue in the Single Family Mortgage Program and six bond issues in the Multifamily Mortgage Program. It is expected that these bonds will be issued during fiscal year 2005 and in total will not exceed $100,000,000.

Supplementary Information

MISSOURI HOUSING DEVELOPMENT COMMISSION

COMBINING BALANCE SHEET

Page 1 Of 2

(In Thousands)

June 30, 2004

Assets

	Operating	Multifamily Mortgage Program	Single-Family Mortgage Program	Total
Current Assets				
Cash and temporary cash investments	$ 5,856	$ —	$ —	$ 5,856
Investments	15,780	—	—	15,780
Mortgage investments	6,188	—	—	6,188
Accrued interest receivable	1,342	—	—	1,342
Accounts receivable - other	207	—	—	207
Prepaid expenses	110	—	—	110
Total Current Assets	29,483	—	—	29,483
Noncurrent Assets				
Restricted Assets:				
Cash and temporary cash investments	2,503	16,754	6,227	25,484
Investments	90,518	85,614	243,018	419,150
Mortgage investments	4,472	251,479	779,801	1,035,752
Accrued interest receivable	45	2,219	5,648	7,912
Deferred financing charges	—	970	30,208	31,178
Total Restricted Assets	97,538	357,036	1,064,902	1,519,476
Investments	44,139	—	—	44,139
Mortgage investments, net of current portion, net of allowances for loan losses ($18,626 in 2004)	81,720	—	—	81,720
Property and equipment	661	—	—	661
Rental properties	—	—	—	—
Total Noncurrent Assets	224,058	357,036	1,064,902	1,645,996
Total Assets	$ 253,541	$ 357,036	$ 1,064,902	$ 1,675,479

MISSOURI HOUSING DEVELOPMENT COMMISSION

COMBINING BALANCE SHEET

Page 2 Of 2

(In Thousands)

June 30, 2004

Liabilities And Net Assets

	Operating	Multifamily Mortgage Program	Single-Family Mortgage Program	Total
Current Liabilities				
Bonds and notes payable	$ 525	$ —	$ —	$ 525
Accounts payable	813	—	—	813
Deferred financing and commitment fees	610	—	—	610
Total Current Liabilities	1,948	—	—	1,948
Current Liabilities - Payable From Restricted Assets				
Bonds and notes payable	—	22,313	23,945	46,258
Accrued interest payable	—	3,907	15,489	19,396
Escrow deposits	24,544	39,071	—	63,615
Rent subsidies and other payables	1,298	606	—	1,904
Accounts payable	—	640	1,607	2,247
Deferred financing and commitment fees	—	107	1,181	1,288
Total Current Liabilities - Payable From Restricted Assets	25,842	66,644	42,222	134,708
Noncurrent Liabilities				
Bonds and notes payable	3,090	247,219	942,142	1,192,451
Deferred financing and commitment fees	6,363	1,931	4,224	12,518
Total Noncurrent Liabilities	9,453	249,150	946,366	1,204,969
Total Liabilities	37,243	315,794	988,588	1,341,625
Net Assets				
Invested in capital assets	661	—	—	661
Restricted by the Commission, bond resolution and State Statute	194,145	41,242	76,314	311,701
Unrestricted	21,492	—	—	21,492
Total Net Assets	216,298	41,242	76,314	333,854
Total Liabilities And Net Assets	$ 253,541	$ 357,036	$ 1,064,902	$ 1,675,479

MISSOURI HOUSING DEVELOPMENT COMMISSION

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(In Thousands)

For The Year Ended June 30, 2004

	Operating	Multifamily Mortgage Program	Single-Family Mortgage Program	Total
Operating Revenues				
Interest and investment income:				
Income - mortgage investments	$ 3,822	$ 14,436	$ 43,623	$ 61,881
Income - investments	5,561	1,916	7,602	15,079
Net decrease in fair market value of investments	(4,864)	(1,209)	(22,389)	(28,462)
Total interest and investment income	4,519	15,143	28,836	48,498
Administration fees	6,384	—	—	6,384
Financing fees and other	8,976	209	8,574	17,759
Federal financial assistance and grants	116,179	—	—	116,179
Total Operating Revenues	136,058	15,352	37,410	188,820
Operating Expenses				
Interest on bonds	221	11,605	53,547	65,373
Bank miscellaneous bond debt expense	59	99	4,182	4,340
Salaries	5,027	—	—	5,027
General and administrative expenses	4,777	—	—	4,777
Provision for loan losses	3,000	—	—	3,000
Rent and other subsidy payments	3,428	—	—	3,428
Housing Trust Fund grants	5,379	—	—	5,379
Federal financial assistance and grants	116,052	—	—	116,052
Total Operating Expenses	137,943	11,704	57,729	207,376
Change In Net Assets	(1,885)	3,648	(20,319)	(18,556)
Net Assets - Beginning Of Year	206,218	39,804	106,388	352,410
Interfund Transfers	11,965	(2,210)	(9,755)	—
Net Assets - End Of Year	$ 216,298	$ 41,242	$ 76,314	$ 333,854